

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

March 31, 2006

Mr. Doug Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street NW
Cleveland, Tennessee 37312

Re: AC# 3-LHH-J2 – Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head

Dear Mr. Ruth:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**LIFE CARE CENTER OF AMERICA, INC.
D/B/A LIFE CARE CENTER OF HILTON HEAD
HILTON HEAD ISLAND, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-LHH-J2**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 15, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

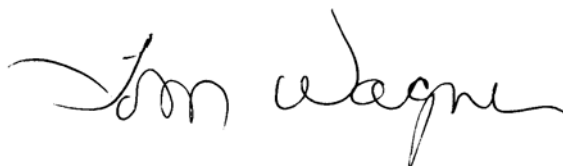
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Life Care Center of America, Inc. d/b/a Life Care Center of Hilton Head dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 15, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Tom Wagner", with a stylized flourish at the end.

Thomas L. Wagner, Jr., CPA
State Auditor

LIFE CARE CENTER OF HILTON HEAD

Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-LHH-J2

10/01/03-
09/30/04

Interim Reimbursement Rate (1)	\$127.21
Adjusted Reimbursement Rate	<u>125.99</u>
Decrease in Reimbursement Rate	\$ <u><u>1.22</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-LHH-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 62.05	\$ 67.92	
Dietary		12.47	11.76	
Laundry/Housekeeping/Maintenance		<u>9.90</u>	<u>10.49</u>	
Subtotal	<u>\$5.75</u>	84.42	90.17	\$ 84.42
Administration & Medical Records	<u>\$ -</u>	<u>19.59</u>	<u>13.25</u>	<u>13.25</u>
Subtotal		104.01	<u>\$103.42</u>	97.67
<u>Costs Not Subject to Standards:</u>				
Utilities		3.27		3.27
Special Services		.08		.08
Medical Supplies & Oxygen		4.29		4.29
Taxes and Insurance		4.15		4.15
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$115.80</u>		109.46
Inflation Factor (4.70%)				5.14
Cost of Capital				9.64
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				5.75
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(4.00)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$125.99</u>

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Adjustments</u>		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,846,919	\$ 9,693 (1) 2,286 (6) 3,967 (11) 1,169 (11)	\$ 18,385 (3) 1,160 (8) 20,671 (9)	\$1,823,818
Dietary	362,349	1,132 (4) 1,160 (6) 1,929 (11)	-	366,570
Laundry	69,177	251 (6)	1,600 (11)	67,828
Housekeeping	109,185	729 (6) 558 (11)	-	110,472
Maintenance	118,253	267 (11)	2,858 (4) 3,049 (5)	112,613
Administration & Medical Records	549,800	18,385 (3) 20,671 (9) 6,366 (11)	7,476 (10) 12,067 (11)	575,679
Utilities	98,749	-	803 (4) 1,951 (5)	95,995
Special Services	2,618	2,569 (11)	2,911 (12)	2,276
Medical Supplies & Oxygen	141,023	1,520 (4)	11,232 (6) 5,348 (12)	125,963
Taxes and Insurance	124,266	206 (4)	2,529 (7)	121,943
Legal Fees	-	-	-	-

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	262,061	35,349 (1) <u>1,553 (13)</u>	15,634 (2)	283,329
Subtotal	3,684,400	109,760	107,674	3,686,486
Ancillary	105,253	6,366 (6)	-	111,619
Nonallowable	407,830	15,634 (2) 803 (4) 440 (6) 2,529 (7) 1,160 (8) 7,476 (10) <u>8,259 (12)</u>	45,042 (1) 3,158 (11) 1,553 (13)	394,378
Total Operating Expenses	<u>\$4,197,483</u>	<u>\$152,427</u>	<u>\$157,427</u>	<u>\$4,192,483</u>
Total Patient Days	<u>29,298</u>	<u>94</u>	<u>-</u>	<u>29,392</u>
Total Beds	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$204,545	
	Accumulated Depreciation	264,375	
	Restorative	9,693	
	Cost of Capital	35,349	
	Other Equity		\$468,920
	Nonallowable		45,042
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	15,634	
	Cost of Capital		15,634
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Administration	18,385	
	Nursing		18,385
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Dietary	1,132	
	Taxes and Insurance	206	
	Medical Supplies	1,520	
	Nonallowable	803	
	Maintenance		2,858
	Utilities		803
	To reclassify expense to the proper cost center HIM-15-1, Section 2106.1 DH&HS Expense Crosswalk		
5	Retained Earnings	5,000	
	Maintenance		3,049
	Utilities		1,951
	To properly charge expense applicable to the prior period and reclassify expense to the proper cost center HIM-15-1, Section 2302.1 DH&HS Expense Crosswalk		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	2,286	
	Dietary	1,160	
	Laundry	251	
	Housekeeping	729	
	Ancillary	6,366	
	Nonallowable	440	
	Medical Supplies		11,232
	To reclassify expense to the proper cost center and disallow duplicate posting of expense HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
7	Nonallowable	2,529	
	Taxes and Insurance		2,529
	To adjust liability insurance expense HIM-15-1, Section 2304		
8	Nonallowable	1,160	
	Nursing		1,160
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
9	Medical Records	20,671	
	Nursing		20,671
	To reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
10	Nonallowable	7,476	
	Administration		7,476
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2304		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
11	Nursing	3,967	
	Restorative	1,169	
	Dietary	1,929	
	Housekeeping	558	
	Maintenance	267	
	Medical Records	6,366	
	Special Services	2,569	
	Laundry		1,600
	Administration		12,067
	Nonallowable		3,158
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
12	Nonallowable	8,259	
	Medical Supplies		5,348
	Special Services		2,911
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Cost of Capital	1,553	
	Nonallowable		1,553
	To adjust capital return State Plan, Attachment 4.19D		
14	<u>Memo Adjustment</u> To increase total patient days by 94 to 29,392		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$626,347</u>	<u>\$626,347</u>

Due to the nature of compliance reporting,
adjustment descriptions and references
contained in the preceding Adjustment
Report are provided for general guidance
only and are not intended to be all-
inclusive.

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,752,432	1,752,432	
Improvements Since 1981	183,367	490,654	
Accumulated Depreciation at 9/30/02	<u>(715,121)</u>	<u>(681,405)</u>	
Deemed Depreciated Value	1,220,678	1,561,681	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	68,480	87,610	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	68,480	87,610	
Depreciation Expense	34,885	91,416	
Amortization Expense	786	152	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	104,151	179,178	\$283,329
Total Patient Days (Actual)	<u>15,070</u>	<u>14,322</u>	<u>29,392</u>
Cost of Capital Per Diem	\$ <u>6.91</u>	\$ <u>12.51</u>	\$ <u>9.64</u>

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-LHH-J2

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$12.51</u>
Reimbursable Cost of Capital Per Diem	\$9.64	
Cost of Capital Per Diem	<u>9.64</u>	
Cost of Capital Per Diem Limitation	<u>\$ -</u>	

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